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ABSTRACT

A survey on the Guaranteed Student Loan Program (GSL) was conducted in 1986 by the Consumer Bankers Association (CBA). Responses by 103 member institutions provided information on student loan operations, the student lending climate, and proposed amendments to the GSL program. Institutions were divided into four asset categories. The larger institutions, as measured by asset size, made the bulk of student loans. Of those institutions under $500 million in assets, 17 made $33.95 million in student loans during 1985; 21 institutions with between $500 million and $1.5 billion in assets made $62.09 million in GSLs; for institutions between $1.5 billion and $5 billion, 21 indicated they had made GSLs for a combined total of $370.52 million. The 32 institutions with assets above $5 billion made $1,657.62 million in student loans. Eighty-three of the respondents ranked the relative net profitability of student lending activities compared to other consumer installment loan products. A significant adverse impact on the GSL program from the recently enacted Gramm-Rudman-Hollings balanced budget amendment was identified; 60% of respondents indicated that they would be adversely affected by the measure. Information was also obtained on advertising of GSLs, loan management, and default prevention practices. (SW)

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1986 CBA
STUDENT LOAN SURVEY SUMMARY

The Consumer Bankers Association's Student Loan Committee recently conducted a survey of member institutions' involvement in the Guaranteed Student Loan Program. The survey gathered statistics on current student loan operations and solicited important insights on both the current student lending climate and on proposed amendments to the program.

One-hundred and three institutions responded to the CBA questionnaire, for a response rate of roughly one-third.

Asset Size

For purposes of tabulation, institutions were divided into four asset categories: under $500 million; between $500 million and $1.5 billion; between $1.5 billion and $5 billion; and more than $5 billion.

Twenty of the respondents indicated asset size under $500 million. Twenty-seven of the respondents reported asset size of between $500 million and $1.5 billion. Twenty-one institutions reported assets of between $1.5 billion and $5 billion. Finally, 32 institutions indicated asset size of greater than $5 billion.

Loan Volume

Not surprisingly, the larger institutions, as measured by asset size, made the bulk of the student loans. However, the smaller institutions did make a sizeable volume of loans. Of those institutions under $500 million in assets, 17 made $33.95 million in student loans during calendar 1985, for an average of $1.99 million. Twenty-one of the institutions with between $500 million and $1.5 billion in assets made $62.09 million in guaranteed student loans during 1985, for an average of $2.96 million. For those institutions between $1.5 billion and $5 billion, 21 indicated they had made GSLs during 1985 for a combined total of $370.52 million, an average of $17.64 million per institution. The 32 institutions with assets above $5 billion made $1657.62 million in student loans, for an average of $51.8 million per institution.

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Relative Profitability

Eighty-three of the respondents ranked the relative net profitability of student lending activities compared to other consumer installment loan products, both at present and as an average over the last 5 years ('81-present).

CBA adopted this analytical approach because the differing accounting and cost allocation procedures and funding strategies of the members surveyed make specific net profitability determinations, and comparisons of same between institutions, impossible. Further, financial institutions make internal fund allocation determinations based on the relative profitability of comparable products, thereby emphasizing that policy considerations should not focus solely on net yield figures. Hence, the CBA survey compares the profitability of student versus other consumer installment loan activities.

Of these, 77% characterized their present student loan activities as less profitable than other consumer loan products and 62% said this was their experience over the last 5 years. 16.8% stated that present student loan activities were equally profitable and 29% indicated that this was true over the past 5 years. Only 6% said that their student lending activities were more profitable than other consumer loan products.

Breakdown of this information by institutional asset size follows:

	Present				5 Year Average			
	A	B	C	D	A	B	C	D
Less Profitable	17	6	18	20	16	5	13	16
Equally Profitable	5	4	4	1	6	5	8	5
More Profitable	0	1	1	3	0	1	2	3

NOTE: Figures represent actual responses, not percentages.

LEGEND: A = under $500 million in assets; B= between $500 million and $1.5 billion in assets; C = between $1.5 billion and $5 billion in assets; D = $5 billion in assets and up.

Gramm-Rudman and Reauthorization

The CBA survey noted a significant adverse impact on the GSL program from the recently enacted Gramm-Rudman-Hollings balanced budget amendment. A full 60 percent, or 62 of the 103 respondents, indicated they would be adversely effected by the measure. Respondents indicated that changes lenders will be forced to make include:

* Withdrawing completely from the existing program (10%);
* Drastically reducing participation, and a highly probable chance of dropping out of the program entirely (18%);
* Substantially limiting future loans, and definite reductions across the board (9%); and
* Re-evaluating present profitability, and reconsidering the financial sense of continuing in the program with future cuts (23%).

The CBA survey also revealed that lenders are uneasy with current congressional proposals to further reduce lender subsidies. Thirty-nine of the respondents indicated they would withdraw from participation should the 25 basis point cut in GSL subsidies currently being debated on Capitol Hill become law. Of those who indicated only a drop in the level of present participation due to the proposed cuts, lenders predicted the following:

* Alternative investment opportunities of profitable advantage would be sought (9%);
* Immense reduction in participation level (7%);
* Considerable decrease in loans across the board, and termination of loans for trade schools or program enrollment terms of two years or less (3%); and
* Re-evaluation of present status to decide if full involvement in existing program is financially acceptable (20%).

Marketing the GSL Function

Ninety of the respondents answered the question, "Do you advertise your GSL loans?"

Of these, 69 percent indicated they do advertise their GSLs. The survey results yielded a sizeable gap in advertising practices for large and small institutions, with 88 percent of those with more than $5 billion in assets advertising vis a vis 65 percent for those institutions with under $500 million in assets.

Most institutions favored newspaper advertisements, and a large number also utilized mailings and statement stuffers. Significantly, a number of institutions with more than $5 billion in assets used seminars/conferences as a vehicle to advertise their GSLs. A further breakdown is provided in the table below.

"How do you advertise your GSLs?"

	A	B	C	D
Newspaper Ads	8	10	3	16
Radio	3	6	2	8
College Newspaper	2	3	2	7
Brochures	1	7	5	10
Mailings/Statement Stuffers	4	8	4	15
Television	1	1	0	2
Poster Campaigns	3	2	4	10
Seminars/Conferences	1	3	3	8

NOTE: Figures represent actual responses; not percentages

LEGEND: A = under $500 million in assets; B = between $500 million and $1.5 billion in assets; C = between $1.5 billion and $5 billion in assets; D = $5 billion in assets and up.

Loan Management

A large majority of survey respondents indicated they service their own GSLs. Of the 103 respondents, 91 answered the question, "Do you service your own loans?" -- 87 percent answered in the affirmative.

Default Prevention

An overwhelming number of lenders indicated that they have taken increased steps to stem delinquencies and defaults in their GSL portfolios. There were no large discernable differences based on an institutions' asset size.

Of the respondents answering the question, "In the past three years, have you taken administrative steps to reduce delinquencies or defaults in your GSL portfolio?" some 85 percent indicated that they have. Boiled down, 15

of the institutions with assets below $500 million, 18 of the institutions with between $500 million and $1.5 billion, 17 of the institutions with between $1.5 billion and $5 billion, and 27 of the institutions with more than $5 billion in assets all stepped up efforts to trim default and delinquency rates.

Some of the steps mentioned by survey respondents included:

* Increase staff, to create a full-time department for collections only;
* Use written notices, phone contact, and circulation of brochures;
* Expansion of present computer system and software packages;
* Maintain closer relationship with students both during the term and the grace period;
* Set requirements for co-signers and credit checks for all loans;
* Practice multiple disbursements and co-payable checks to the student and the school;
* Introduce a new automated collections management system;
* Report regularly to credit bureaus; and
* Extension into the use of skip-tracing units.